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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of the Application of)
MOSCO, INC.)
For Approval of Rate Increases and)
Revised Rate Schedules.)
_____)

DOCKET NO. 03-0400

DECISION AND ORDER NO. 21193

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DIV. OF CONSUMER ADVOCACY
DEPT. OF COMMERCE AND
CONSUMER AFFAIRS
STATE OF HAWAII

Filed August 3, 2004
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Karen Higashi
Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi

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Decision and Order No. **21193**

DECISION AND ORDER

I.

Introduction

A.

MOSCO, Inc.

MOSCO, Inc. ("MOSCO") is a public utility that provides wastewater service (aka sewer service) in its service area of Kaluakoi, island of Molokai, pursuant to a certificate of public convenience and necessity ("CPCN") issued by the commission in Decision and Order No. 7141, filed on July 15, 1982, in Docket No. 4444.¹ MOSCO, a Hawaii corporation, is a wholly-owned subsidiary of Kaluakoi Sewer, LLC, which in turn, is an affiliate of Molokai Properties, Limited, dba Molokai Ranch, a Hawaii corporation.²

¹See also Decision and Order No. 19435, filed on June 27, 2002, in Docket No. 02-0075 (expansion of its service area to include the Paniolo Hale condominium project).

²See MOSCO's Exhibit 11-T-100, at 4 and 6; MOSCO's Exhibit 11-T-200, at 4; and MOSCO's response to CA-IR-12.

MOSCO's wastewater treatment facilities consist of: (A) two (2) 50,000 gallons per day ("gpd") sewage treatment units located at its Kaluakoi wastewater treatment plant; and (B) a 60,000 gpd unit located at its Ke Nani Kai wastewater treatment plant. The maximum average daily flow capacity of MOSCO's wastewater treatment facilities is 160,000 gpd.

B.

MOSCO's Request

MOSCO requests the commission's approval to increase its rates and revise its rate schedules, by application filed on November 25, 2003. MOSCO seeks an increase of approximately \$92,928, or one hundred (100) per cent, over revenues at present rates, based on an estimated total revenue requirement of \$185,856 for the 2004 calendar test year ("test year"). MOSCO makes its request pursuant to Hawaii Revised Statutes ("HRS") §§ 269-12(c), 269-16, and Hawaii Administrative Rules ("HAR") § 6-61-88.

MOSCO represents that: (1) since it commenced operations in July 1982, its operating expenses have exceeded its revenues, such that its present revenues are insufficient to allow it to recover its operating and depreciation expenses; and (2) this is its first application for a general increase in its rates.

MOSCO requests that its general rate increase and revisions to its rate schedules take effect by increasing its

applicable monthly flat rate charge, based on customer class, as follows:

<u>Customer Class</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
Single-family residence	\$22 per unit	\$44 per unit
Hotel room, condominium apartment unit, dwelling unit in multiple-unit project	\$22 per unit	\$44 per unit
Commercial, industrial, recreational	\$22 per unit	\$44 per unit

MOSCO also proposes to increase its minimum charge for inspecting a service connection, and its deposit fee, as follows:

	<u>Present</u>	<u>Proposed</u>
Minimum charge for inspection of a service connection	\$15	\$30
Deposit (upon commencement of service)	\$25	\$50

C.

Procedural Background

MOSCO served copies of its application upon the Department of Commerce and Consumer Affairs, Division of Consumer Advocacy ("Consumer Advocate"). On December 12, 2003, the Consumer Advocate timely filed its statement on the completeness of MOSCO's application, pursuant to HRS § 269-16(d). MOSCO, by letter dated December 15, 2003, responded to the Consumer Advocate's statement. The commission, by Order No. 20718, filed on December 18, 2003, held that, "[c]onsistent with HRS § 269-16(d), the filing date of MOSCO's complete application is December 15, 2003." Id. at 4.

On January 28, 2004, the commission held a public hearing on MOSCO's application, at Kaunakakai, Molokai, pursuant to HRS §§ 269-12(c) and 269-16(b). MOSCO's Senior Vice President orally testified, and the Consumer Advocate submitted its written testimony. No ratepayers or members of the public appeared or testified.

The Consumer Advocate and MOSCO (collectively, the "Parties") proceeded with discovery.³ On May 17, 2004, the Consumer Advocate filed its written testimonies, exhibits, and workpapers. In response thereto, on June 2, 2004, the Parties notified the commission that "they are discussing settlement of disputed issues . . . raised in the Consumer Advocate's Direct Testimonies, Exhibits, and Workpapers[.]"⁴

On July 2, 2004, the Parties jointly filed their "Stipulation of Settlement Agreement in Lieu of Rebuttal Testimonies, Evidentiary Hearing and Briefs" (the "Stipulation"). By their Stipulation, the Parties agree to: (1) an increase in MOSCO's revenues of \$92,928 for the test year; and (2) a revenue requirement of \$185,856, consistent with the amount MOSCO requests in its application.

This decision and order addresses the Parties' Stipulation.

³See MOSCO's responses, filed on March 5, April 13 and 29, 2004, to the Consumer Advocate's information requests ("IRs") and supplemental IRs.

⁴Parties' joint letter, dated June 2, 2004.

II.

Issues

The underlying issue, as set forth in Stipulated Prehearing Order No. 20801, filed on February 12, 2004, is the reasonableness of MOSCO's proposed general rate increase. This involves, in turn, a review of the following sub-issues:

1. Are the proposed tariffs, rates, and charges just and reasonable?
2. Are the revenue forecasts for the 2004 test year at present and proposed rates reasonable?
3. Are the projected operating expenses for the 2004 test year reasonable?
4. Is the projected rate base for the 2004 test year reasonable, and are the properties included in the rate base used or useful for public utility purposes?
5. Is the requested rate of return fair?

III.

The Parties' Stipulation

The Stipulation reflects the Parties' global settlement of all the issues, and their agreement to waive an evidentiary hearing. In reaching their global agreement, the Parties note:

1. The Stipulation, binding between them, represents a compromise "to fully and finally resolve all issues in the subject docket on which they had differences for the purpose of simplifying and expediting this proceeding, and are not meant to be an admission by either of the Parties as to the acceptability or permissibility of matters

stipulated to herein." Parties' stipulation, at 7.

2. They reserve their respective rights to proffer, use and defend different positions, arguments, methodologies, or claims regarding the matters stipulated herein, in other dockets or proceedings.
3. Nothing in the Stipulation shall be deemed to, nor be interpreted to, set any type of precedent, or be used as evidence in any future regulatory proceeding, except as necessary to enforce the Stipulation.
4. Each provision of the Stipulation is in consideration and support of all other provisions, and is expressly conditioned upon the commission's acceptance of the Stipulation in its entirety.

In the event the commission declines to adopt parts or all of the agreed upon matters set forth in the Stipulation, the Parties reserve the right to pursue any and all of their respective positions through further negotiations, additional filings and proceedings, or both.

5. The commission may take such steps and action it deems necessary and appropriate to facilitate its review of the Stipulation, and to determine whether the Stipulation should be approved.

The Parties also acknowledge their understanding that the Stipulation is subject to the commission's review and approval, and the commission is not bound by the Stipulation. In this regard, it is well-settled that an agreement between the parties in a rate case cannot bind the commission, as the commission has an independent obligation to set fair and just rates and arrive at its own conclusion. In re Hawaiian Elec. Co., Inc., 5 Haw. App. 445, 698 P.2d 304 (1985).

With this mandate, the commission proceeds in reviewing the justness and reasonableness of the Parties' Stipulation, taken as a whole.

IV.

Operating Revenues

MOSCO's customer base consists of:

1. Three-hundred fifty-one (351) residential customers, comprised of:

A. Five (5) single-family customers, residing in the Molokai Fairways subdivision; and

B. Three-hundred forty-six (346) multi-family/hotel customers that are represented by three (3) associations for billing purposes: (i) Ke Nani Kai; (ii) the Paniolo Hale Association of Apartment Owners; and (iii) West Molokai Resorts (aka Kaluakoi Villas); and

2. One (1) commercial/industrial/recreational customer, the Kaluakoi golf course.⁵

MOSCO's present and proposed rate designs consist of the applicable monthly flat rate charge, based on the above-referenced single-family, multi-family, and commercial/industrial/recreational customer classes. There is no separate wastewater charge based on a customer's amount of water usage, aka a water usage charge.

⁵The Kaluakoi Hotel, closed since January 1, 2001, is a former customer. The Hotel "is not expected to be returned to service until the middle of 2007 at the earliest." Parties' Stipulation, at 24. MOSCO agrees to inform the Consumer Advocate immediately once MOSCO begins to provide wastewater service to the Kaluakoi Hotel. At that time, "the Parties agree to work together to determine what, if any, impacts the reopening of the Hotel should have on [MOSCO's] rates." Id.

The Parties' stipulated total operating revenues sum is based on 352 ½ customers, with a reduction of ½ of a customer, for MOSCO's total customer base of 352 customers. This adjustment reflects a new single-family residence currently under construction that is scheduled to have wastewater service for approximately six (6) months, if any, during the test year. The Parties agree to exclude the revenues received from this future customer, if any, during the test period.

With this adjustment, the Parties stipulate to the following test year operating revenues at present rates:⁶

<u>Customer Class</u>	<u>Present Rates</u>
Single-family residence	\$1,452
Hotel room, condominium apartment unit, dwelling unit in multiple-unit project	\$91,344
Commercial, industrial, recreational	\$264
Other Revenues/Adjustment	<u>(\$132)</u>
Total Operating Revenues	\$92,928

The commission finds reasonable these test year estimates.

V.

Expenses

MOSCO's expenses consist of four (4) categories: (1) operating expenses; (2) depreciation expense; (3) revenue taxes; and (4) income taxes.

⁶Commission counsel's telephone conversations with MOSCO's counsel in July 2004, to clarify the Parties' Exhibits A and B.

A.

Operating Expenses

MOSCO's wastewater utility operations are handled by a combination of Molokai Properties, Limited staff and consultant support. The operations consultant: (1) provides weekend supervision and maintenance of MOSCO's wastewater treatment facilities; (2) is the licensed operator of the facilities; and (3) the consultant's charges are apportioned between MOSCO and Molokai Public Utilities, Inc., i.e., Molokai Properties, Limited's water utility.

The Parties stipulate to the following test year operating expenses:

Salaries and Wages	\$33,896
Payroll Taxes and Benefits	\$4,471
Purchased Electricity	\$22,115
Professional Fees	\$6,000
Repairs and Maintenance	\$2,500
Chemicals and Testing	\$7,700
Water, Cleaning, Rental and Supplies	\$900
Fuel and Oil	\$2,000
Administrative and General	\$5,880
Rate Case Amortization	<u>\$10,179</u>
Total Operating Expenses	\$95,641

In general, the above-referenced amounts (excluding rate case amortization) represent the normalized level of funds MOSCO will expend during the test year to operate its facilities and provide wastewater service to its ratepayers, excluding the Kaluakoi Hotel (former customer) and the customer whose single-family residence is presently under construction. Rate case amortization, meanwhile, represents the total estimated

amount of expenses incurred by MOSCO to process this rate case, amortized over a five (5)-year period.

The commission finds reasonable the Parties' stipulated amounts for operating expenses.

B.

Depreciation Expense

In connection with the Parties' compromise on the sludge removal/testing and capacity issues for plant-in-service (see Section VI(A), Rate Base, below), the Parties stipulate to depreciation expense of \$23,836 for the test year. (See Section VI, Rate Base, below.) The commission finds reasonable this stipulated amount for depreciation expense.

C.

Revenue Taxes

Revenue taxes consist of the: (1) State Public Service Company ("PSC") tax, 5.885 per cent; and (2) State Public Utility Fee, 0.5 per cent. The commission finds reasonable the Parties' stipulated amount of \$11,867 for revenue taxes, calculated based on MOSCO's projected revenue requirement of \$185,856. This estimated amount of \$11,867 consists of the following amounts:

PSC tax	\$10,938
Public Utility Fee	<u>\$929</u>
Total revenue taxes	\$11,867

D.

Income Taxes

Although MOSCO calculates its income taxes based on a consolidated tax return, for ratemaking purposes the Parties agree to treat MOSCO as a "stand-alone" company. Under this methodology, the Parties thus agree to calculate MOSCO's income taxes based on the lower federal and State income tax rates applicable to a "stand-alone" company.

The commission finds reasonable the Parties' stipulated amount of \$10,553 for income tax expense.

VI.

Rate Base

The Parties stipulate to an average test year rate base of \$447,192. MOSCO's rate base consists of its plant-in-service, less accumulated depreciation (i.e., the net plant-in-service), plus working capital, as follows:

Plant-in-service	\$666,292
Accumulated depreciation	<u>(\$227,069)</u>
Net plant-in-service	\$439,223
Working capital	<u>\$7,969</u>
Average rate base	\$447,192

A.

Plant-in-Service

The stipulated plant-in-service amount reflects two (2) key adjustments agreed-upon by the Parties for settlement

purposes: (1) sludge removal and testing; and (2) the wastewater treatment facilities' capacity.

1.

Sludge Removal and Testing

Based on the Consumer Advocate's assessment, the Parties agree to remove from MOSCO's plant-in-service the amount it incurred for sludge removal and testing costs, "on the basis that said costs should have been expensed to repairs and maintenance in the year incurred rather than capitalized to plant-in-service."⁷

2.

Capacity

The maximum average daily flow capacity of MOSCO's wastewater treatment plant facilities is 160,000 gpd. For wastewater systems, "private treatment works of required design capacity greater than or equal to 100,000 gallons per day shall comply with the design standards of their respective counties, or lacking that, comply with the design standards of the City and County of Honolulu."⁸ On the island of Molokai, the City and County of Honolulu design standards apply.⁹

⁷Parties' Stipulation, at 18.

⁸MOSCO's response to CA-SIR-8(a), *Engineering Report on the Sand Filter & Sludge Drying Bed Improvements to the Kaluakoi and Ke Nani Kai Wastewater Treatment Plant*, prepared by Engineering Concepts, Inc., dated September 2002, at 13 (citing Title 11, Chapter 62, HAR, Wastewater Systems, Section 11-62-24(b)).

⁹MOSCO's response to CA-SIR-8(a), at 13 and 20.

The 60,000 gpd unit located at MOSCO's Ke Nani Kai wastewater treatment plant is presently out-of-service due to the partial collapse of the third aeration basin.¹⁰ Thus, the Consumer Advocate initially sought to exclude the Ke Nani Kai wastewater treatment plant from MOSCO's plant-in-service.

In response, MOSCO explains that, although the unit at its Ke Nani Kai wastewater treatment plant is presently unable to provide the additional 60,000 gpd of capacity due to the basin's partial collapse, many parts of the unit are currently being used and useful to serve MOSCO's existing customer demands. Specifically, with the exception of the aerobic digester and the aeration basins, "all other portions of the Ke Nani Kai wastewater treatment plant are currently being used to serve [MOSCO's] existing customers, and are in fact needed by [MOSCO's] overall system to meet the chlorine contact time requirements imposed by the [State] Department of Health."¹¹

Thus, MOSCO contends that, at a minimum, twenty-five (25) per cent of the Ke Nani Kai wastewater treatment plant is currently operational and is used and useful for utility purposes. The Consumer Advocate concurs that, for settlement purposes, a portion of the Ke Nani Kai wastewater treatment plant is used and useful and should not be excluded from MOSCO's plant-in-service.

¹⁰MOSCO's response to CA-SIR-8(c).

¹¹Parties' Stipulation, at 20 and Exhibit F.

As a result, the Parties agree:

a. To include the Kaluakoi wastewater treatment plant in MOSCO's plant-in-service.

b. To also include twenty-five (25) per cent of the Ke Nani Kai wastewater treatment plant in MOSCO's plant-in-service.

c. That approximately seventy-two (72) per cent of MOSCO's existing wastewater treatment facilities are used and useful, with the remaining twenty-eight (28) per cent deemed excess capacity and thus not included in MOSCO's plant-in-service for ratemaking purposes.

d. To a stipulated amount of \$666,292 for MOSCO's plant-in-service.¹²

The commission finds reasonable the Parties' stipulated amount of \$666,292 for MOSCO's plant-in-service.

B.

Accumulated Depreciation
and Net Plant-in-Service

Given the agreed-upon amount of \$666,292 for MOSCO's plant-in-service, the Parties stipulate to: (1) accumulated depreciation of \$227,069; and (2) a net plant-in-service balance of \$439,223. The commission finds reasonable these agreed-upon amounts of \$227,069 and \$439,223, respectively.

¹²This stipulated amount also reflects the disallowance of the sludge removal and associated testing costs.

C.

Working Capital

Working capital represents the sum that MOSCO's investors must supply for MOSCO to meet current obligations incurred in providing wastewater services, pending receipt of revenues on account of those services. MOSCO is entitled to a return on such services.

The Parties' agree to the 1/12th methodology in calculating working capital. Based on their agreed-upon level of expenses, the Parties stipulate to a working capital requirement of \$7,969. The commission finds reasonable this stipulated amount.

D.

Average Rate Base

The commission finds reasonable the Parties' stipulated average test year rate base of \$447,192.

VII.

Rate of Return

The Parties stipulate to an overall rate of return of 9.83 per cent. This stipulated amount: (1) is consistent with the ten (10) per cent rate of return approved by the commission

in previous water and wastewater utility rate cases;¹³ and (2) is fair.

VIII.

Rate Design

The Parties stipulate to MOSCO's proposed rate design, without change, as described in Section I.B, above. The commission finds reasonable the Parties' proposed rate design.¹⁴ The approved rates provide MOSCO a reasonable opportunity to earn its test year revenue requirement of \$185,856.

¹³See, e.g., *In re Mauna Lani STP, Inc.*, Decision and Order No. 20405, filed on August 29, 2003, in Docket No. 02-0392; *In re Waikoloa Sanitary Sewer Co., Inc., dba West Hawaii Sewer Co.*, Decision and Order No. 19223, filed on February 27, 2002, in Docket No. 00-0440; *In re Waikoloa Resort Util., Inc., dba West Hawaii Util. Co.*, Decision and Order No. 16372, filed on June 9, 1998, in Docket No. 96-0366; and *In re Princeville Util. Co., Inc.*, Decision and Order No. 16053, filed on November 4, 1997, in Docket No. 95-0172.

¹⁴For rate increases above twenty-five (25) per cent, the Consumer Advocate generally recommends that the increases be phased-in in order to minimize any "rate shock." In this instance, however, the Consumer Advocate does not recommend the phasing-in of the new rates, due to three (3) reasons: (1) MOSCO has not had a rate increase in the twenty (20) plus years since it was issued its CPCN in 1982; (2) no ratepayers attended the public hearing on January 28, 2004, to express their concerns on the proposed rate increases; and (3) no ratepayers responded to the Consumer Advocate's correspondence, which attempted to solicit public comments on the proposed rate increases.

IX.

Tariff Changes

The Parties agree to certain revisions to MOSCO's tariff rules.¹⁵ Specifically:

1. Replace "consumer" throughout MOSCO's tariff rules with "customer."
2. Certain reformatting changes: (A) adding MOSCO's name, location, tariff, and page version number, to the page headers on each page; (B) adding the identity of the issuer of the tariff rules (i.e., contact person), and the tariff's effective date to the page footers on each page; and (C) adding a tariff check list sheet.

3. For Rule I, adding the following definitions:

"Contribution in aid of construction (CIAC)" shall mean the fee charged the applicant or Customer by the Company to install or pay for existing, new, or expanded collection and/or treatment plant facilities required to serve an applicant or Customer receiving service or substantially increasing sewage outflow volume from new or substantially modified premises and developments.

"Notice of discontinuance" means oral or written notice to the Company by a Customer that the Customer wishes to discontinue service. Oral or written notice will be received only during business hours, Monday through Friday not including holidays.

4. Amending Rule IV.C, governing customer deposits, to read as follows:

DEPOSITS. The amount of the deposit required under this Rule shall be Fifty Dollars (\$50.00). The deposit shall earn 2% simple interest per year. The deposit shall be applied to all outstanding bills of the Customer upon termination or discontinuation of service, and the excess, if any, shall be refunded to the Customer within forty-five (45) days after the termination or discontinuation of service.

¹⁵The exhibits to the Stipulation include: (1) Exhibit G, MOSCO's revised tariff rules; and (2) Exhibit H, the "black-lined" version of MOSCO's revised tariff rules.

5. Adding a new sentence to the end of Rule V.8, governing alterations to MOSCO's sewer system, such that Rule V.8 will now read as follows:

All work and materials in connection with the change in location or elevation or alteration of any kind to any part of the existing sewer system made necessary by a new service connection shall be done and furnished by the Company at the expense of the applicant. All such work and material when completed and installed shall remain the sole property of the Company, but shall be paid for by the Customer.

6. Adding a new rule, designated Rule VI, governing the reading of meters and rendering of bills:

RULE VI
METER READING AND RENDERING OF BILLS

1. Bills are rendered monthly or bimonthly at the option of the Company. All bills will be due and payable upon deposit in the United States mail, receipt by the Customer, or other presentation to the Customer. Payment shall be made at the office of the Company or, at the Company's option, to duly authorized collectors of the Company. If any bill is not paid within thirty (30) days after presentation or deposit in the United States mail, the sewer service will be subject to discontinuance in accordance with Section 2 of Rule X.

2. The Customer shall submit any dispute regarding the charges appearing on the bill to the Company in writing not later than twenty (20) days following the due date for the bill. The Company shall furnish a written response regarding its investigation and determination as to the correctness or any adjustments to the bill within fifteen (15) days of its receipt of the written dispute. The Customer may pay the disputed bill under protest within the time required by this Rule to avoid discontinuation of service, in which event the dispute will be submitted to the Public

Utilities Commission of the State of Hawaii for final determination.

3. In case charges are not paid prior to the due date, there shall be added as a late payment charge an amount equal to 1% per month of the delinquent balance. A service fee for handling a dishonored check may be made in accordance with fees established by the Company, as approved by and on file with the Public Utilities Commission of the State of Hawaii.

4. A service fee of \$15 may be imposed by the Company on all dishonored checks.

7. Amending and re-numbering Rule VIII.1 (to Rule IX.1), relating to service interruptions, to read as follows:

The Company will exercise reasonable diligence and care to provide adequate sewer service to the Customer and to avoid interruptions in service, but will not be liable for any interruption or insufficiency of service or any loss or damage occasioned thereby. Nor will it be liable for termination of services for reasons deemed necessary and proper, as provided herein.

8. Amending and re-numbering Rule XI (to Rule XII), relating to ingress and egress from a customer's premises, to read as follows:

Any officer or employee of the Company bearing proper credentials and identification shall have the right of ingress to and egress from the Customer's premises at all reasonable hours for any purpose reasonably connected with the furnishing of sewer service to said premises and the exercise of any and all rights secured to it by law or these Rules and Regulations. In case any such officer or employee is refused admittance to any premises, or being admitted shall be hindered or prevented from making such inspection, the Company may cause the sewer service to be discontinued from said premises after giving 24 hours notice to the owner or occupant of said premises of its intention to do so.

9. Adding a new rule, designated Rule XV, governing contributions in aid of construction:

RULE XV
CONTRIBUTIONS IN AID OF CONSTRUCTION

1. As a condition of receiving service or substantially increasing sewage outflow volume from new or substantially modified premises, developers, commercial applicants, public Customers, and/or private Customers shall be required to pay a non-refundable contribution in aid of construction to the Company.

2. Contribution in aid of construction (CIAC) payments are used by the Company to install or pay for existing, new, or expanded collection and/or treatment plant facilities required to serve such applicants or Customers.

3. The contribution in aid of construction required as a condition of service to new premises shall be payable only once for the premises, unless the premises are substantially modified at which time an additional contribution in aid of construction may be required. Substantially modified shall mean a change in the character, use, size, or activity of the premises which increases wastewater flow by twenty per cent or more of the originally estimated flow.

10. Adding a new rule, designated Rule XVI, governing severability:

RULE XVI
GENERAL

If any rule, section, sentence, clause, or phrase of these Rules and Regulations or its application to any person or circumstances or property is held to be unconstitutional or invalid, the remaining portions of these Rules and Regulations or the application of these Rules and Regulations to other persons or circumstances or property shall not be affected. The Company hereby declares that it would have adopted these Rules and Regulations, and each and every

rule, section, sentence, clause, or phrase thereof, irrespective of the fact that any one or more other rules, sections, sentences, clauses, or phrases be declared unconstitutional or invalid.

The agreed-upon revisions are consistent with prior commission rulings, explain certain terms, and clarify MOSCO's existing tariff provisions. The commission finds reasonable the Parties' stipulated revisions to MOSCO's tariff rules.

X.

Commission's Approval

This rate filing represents MOSCO's first application for a general increase in its rates, since its inception of wastewater service in 1982. Its present and proposed rate designs consist of an across-the-board flat monthly charge, with no separate water usage charge. Moreover, the Parties' Stipulation results from arms-length negotiations, involving "give and take" on both sides.

The commission: (1) finds that the Parties' Stipulation, taken as a whole, is just and reasonable; and (2) approves the Parties' Stipulation. That said, the commission makes clear that its approval of the Stipulation, or of the methodologies used herein, may not be cited as precedent in any future proceeding.

In the future, MOSCO is strongly advised to seek rate relief on a more frequent basis, in order to minimize the

potential impact of the magnitude of its rate increases upon its ratepayers. In this respect, the commission notes:

1. Molokai Properties, Limited acquired MOSCO in December 2001, and in November 2003, MOSCO filed its pending request for rate relief.

2. The Parties agree to amortize MOSCO's rate case expenses over a five (5)-year period.

3. MOSCO's expert witness represents that: (A) MOSCO anticipates filing its next application for rate relief in five (5) years; and (B) Molokai Properties, Limited "plans to have more frequent rate reviews and requests for revenue increases as needed." ¹⁶

4. On July 6, 2004, Act 168 (to be codified at HRS § 269-16(f)) took effect. Act 168 streamlines the rate application and ratemaking process for public utilities such as MOSCO, with annual gross revenues of less than \$2 million.

XI.

Ultimate Findings and Conclusions

The commission finds and concludes:

1. The operating revenues and operating expenses for the test year, as set forth in Exhibit A, are reasonable.

2. The use of an average test year rate base is reasonable.

3. The test year average depreciated rate base under approved rates is \$447,192.

¹⁶MOSCO's Exhibit 11-T-200, at 19 - 20.

4. The stipulated rate of return for the test year is 9.83 per cent, which is fair.

5. MOSCO is entitled to total operating revenues of \$185,856.

6. MOSCO's new rate design and tariff revisions are reasonable.

7. The commission's issuance of this final decision and order renders moot the issuance of an interim decision and order.

XII.

Orders

THE COMMISSION ORDERS:

1. The Parties' waiver of an evidentiary hearing is approved.

2. MOSCO may increase its rates to produce a total annual revenue increase of \$92,928 as shown on Exhibit A, representing an increase in MOSCO's revenue requirement to \$185,856, or a rate of return of 9.83 per cent on its rate base for the test year.


3. The effective date of MOSCO's increase in rates and revised tariff sheets is three (3) business days from the date of this decision and order.

4. MOSCO's revised tariff sheets and rate schedules, with the applicable issued and effective dates, shall be filed with the commission and served on the Consumer Advocate within two (2) business days from the date of this decision and order.

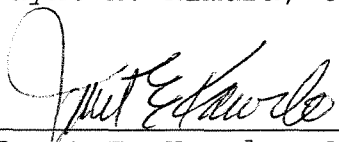
5. The issuance of this final decision and order renders moot the issuance of an interim decision and order.

DONE at Honolulu, Hawaii AUG 03 2004.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By 
Carlito P. Caliboso, Chairman

By 
Wayne H. Kimura, Commissioner

By 
Janet E. Kawelo, Commissioner

APPROVED AS TO FORM:



Michael Azama
Commission Counsel

03-0400.sl

EXHIBIT A

DOCKET NO. 03-0400
RESULTS OF OPERATIONS
TEST YEAR ENDED DECEMBER 31, 2004

	Present Rates	Additional Amount	Approved Rates
REVENUES			
Single Family	\$ 1,452	\$ 1,452	\$ 2,904
Multi-Family	91,344	91,344	\$ 182,688
Commercial	-	-	\$ -
Other Customers	264	264	\$ 528
Effluent Sales	-	-	\$ -
Other Revenues/Adjustments	(132)	(132)	\$ (264)
Total Operating Revenues	<u>\$ 92,928</u>	<u>\$ 92,928</u>	<u>\$ 185,856</u>
O & M EXPENSES			
Salaries and Wages	\$ 33,896	-	\$ 33,896
Payroll Taxes and Benefits	4,471	-	4,471
Purchased Electricity	22,115	-	22,115
Professional Fees	6,000	-	6,000
Repairs & Maintenance	2,500	-	2,500
Chemicals and Testing	7,700	-	7,700
Water, Cleaning, Rental and Supplies	900	-	900
Fuel and Oil	2,000	-	2,000
Administrative and General	5,880	-	5,880
Rate Case Amortization	10,179	-	10,179
Uncollectible Expense	-	-	-
Total O & M Expenses	<u>\$ 95,641</u>	<u>-</u>	<u>\$ 95,641</u>
Taxes, Other Than Income Tax: 6.385%	\$ 5,942	\$ 5,925	\$ 11,867
Depreciation	<u>\$ 23,836</u>	<u>-</u>	<u>23,836</u>
Operating Income Before Income Tax	\$ (32,491)	\$ 87,003	\$ 54,512
Income Taxes	<u>-</u>	<u>10,553</u>	<u>\$ 10,553</u>
Net Operating Income	<u>(32,491)</u>	<u>76,450</u>	<u>\$ 43,959</u>
Average Rate Base	<u>\$ 447,192</u>		<u>\$ 447,192</u>
Return on Rate Base	<u>-7.27%</u>		<u>9.83%</u>

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 21193 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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DIVISION OF CONSUMER ADVOCACY
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Karen Higashi

DATED: AUG 03 2004